The Fiscal Monitor

A Publication of the Department of Finance

Highlights

April 2007: budgetary surplus of $2.7 billion

There was a budgetary surplus of $2.7 billion in April 2007, up $0.1 billion from the $2.6-billion surplus in April 2006. Budgetary revenues rose $2.0 billion, or 10.6 per cent, driven in large part by a $1.0 billion, or 44.6 per cent, increase in corporate income tax revenues. Personal income tax revenues and other income tax revenues were also up, while goods and services tax (GST revenues) declined due to the July 1, 2006 rate reduction. Program expenses increased $1.7 billion, or 12.3 per cent, reflecting an increase in transfer payments and departmental operating expenses. Public debt charges were up $0.3 billion, due to an increase in the average effective interest rate on the stock of interest-bearing debt.

May 2007: budgetary surplus of $0.8 billion

There was a budgetary surplus of $0.8 billion in May 2007, down from the $1.0-billion surplus recorded in May 2006. Budgetary revenues were up $0.4 billion, or 2.2 per cent. All revenue streams, with the exception of GST, were higher. Program expenses were up $0.6 billion, or 4.3 per cent, while public debt charges were virtually unchanged.

April and May 2007: budgetary surplus of $3.5 billion

For the first two months of the 2007–08 fiscal year (April and May), the budgetary surplus is estimated at $3.5 billion, down marginally from the $3.6 billion surplus reported in the same period last year. Revenues increased $2.4 billion, or 6.5 per cent, due in large part to strength in corporate income tax revenues. Program expenses were up $2.3 billion, or 8.2 per cent, reflecting higher transfers and other program expenses. Public debt charges rose $0.3 billion.

The results for the first two months of the fiscal year are not indicative of the outcome for the year as a whole. For example, the year-to-date results do not include the spending measures pertaining to 2007–08 that were announced in Budget 2007 but for which legislative authority had not been received by the end of May, including significant increases in funding for Equalization and the Canada Social Transfer. These measures will be reflected in the coming months. In addition, financial results can be volatile on a monthly basis due to variations in the timing of significant payments or receipts.

A quarterly update of the 2007–08 budgetary surplus projection will be provided in the June *Fiscal Monitor*, which will be published in late August.

The Fiscal Monitor

April and May 2007 budgetary results

Through the first two months of the 2007–08 fiscal year, there was a budgetary surplus of $3.5 billion, down $0.1 billion from the $3.6-billion surplus reported during the same period of 2006–07.

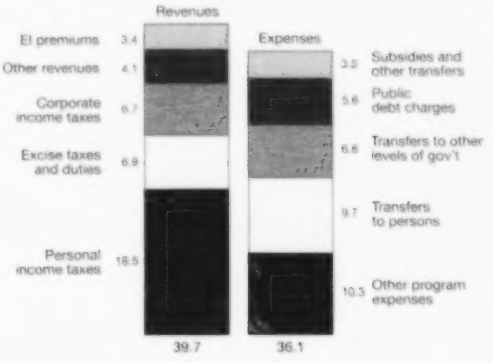
On a year-over-year basis, budgetary revenues increased by $2.4 billion, or 6.5 per cent, to $39.7 billion, primarily reflecting strong gains in corporate income tax revenues.

- Personal income tax receipts rose $0.8 billion, or 4.6 per cent, through April and May, driven by higher source deductions which are consistent with the gains in employment and wages and salaries over the period.
- Corporate income tax revenues were up $1.4 billion, or 27.0 per cent, reflecting gains in profitability in 2006, and the ongoing strength in corporate profits this year. However, corporate income tax revenues can be volatile on a month-to-month basis as corporate year-ends are spread unevenly over the fiscal year, such that large refunds or settlement payments may be recorded in any given month. In addition, assessments or reassessments, which can relate to activity that took place in prior years, can influence results in a given month.
- Other income tax receipts—withholdings from non-residents—rose 19.1 per cent relative to the same period last year, also reflecting the ongoing strength in corporate profitability. Other income tax revenues also can be volatile on a monthly basis, as they are determined in large part by corporate dividend payments.
- Excise taxes and duties were down $0.7 billion, or 9.0 per cent, due to the $0.8 billion decline in GST revenues which reflected the 1-percentage-point reduction in the GST rate effective July 1, 2006. Sales and excise taxes increased $13 million. Customs import duties rose $102 million, and the Air Travellers Security Charge was up $3 million over the period.
- Employment insurance (EI) premium revenues increased by $0.2 billion, or 6.7 per cent, through April and May, reflecting improvements in employment and wages and salaries, which more than offset the decline in the premium rate from $1.87 to $1.80 per $100 of insurable earnings, effective January 1, 2007.
- Other revenues, consisting of net profits of enterprise Crown corporations, revenues of consolidated Crown corporations, sales of goods and services, return on investments, and foreign exchange revenues, increased by $0.5 billion. This revenue stream is volatile on a monthly basis, due in part to variations in the timing of large transactions from year to year.

Program expenses in the April to May 2007 period were $30.3 billion, up $2.3 billion, or 8.2 per cent, from the prior year, reflecting an increase in transfer payments and operating expenses of departments and agencies.

Revenues and expenses
(April to May 2007)

$ billions



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Transfer payments increased $1.2 billion, or 6.4 per cent.

- Major transfers to persons, consisting of elderly benefits, EI benefits and children's benefits, rose $0.8 billion, or 8.8 per cent, on a year-over-year basis. Elderly benefits increased 4.3 per cent and EI benefit payments increased 6.5 per cent. Children's benefits, which consist of the Canada Child Tax Benefit and the new Universal Child Care Benefit (UCCB), were up $0.4 billion compared to one year ago, reflecting transfers under the UCCB which began in July 2006.
- Major transfers to other levels of government, consisting of transfers in support of the Canada Health Transfer and Canada Social Transfer, fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were up $0.4 billion, or 6.0 per cent, due largely to increases in the Canada Health Transfer. The year-to-date results do not yet reflect a combined $2.4 billion increase in funding for Equalization and the Canada Social Transfer announced in Budget 2007, enabling legislation for which did not receive Royal Assent until June.
- Subsidies and other transfers were up $35 million, or 1.0 per cent, from the prior year.

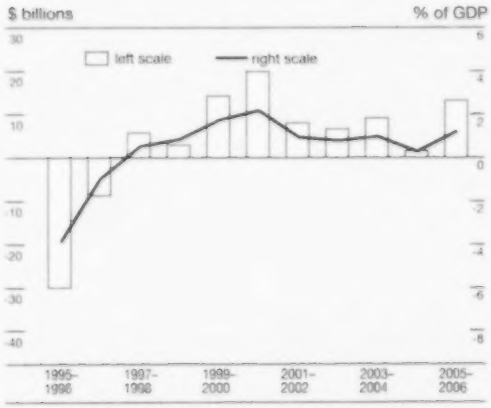
Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including National Defence, and also reflect the ongoing assessment of the government's liabilities. On a year-over-year basis, these expenses increased $1.1 billion, or 11.7 per cent.

Public debt charges increased by $0.3 billion, or 4.7 per cent, in the first two months of 2007–08, due to an increase in the average effective interest rate on the stock of interest-bearing debt.

Financial source of $8.5 billion for April to May 2007

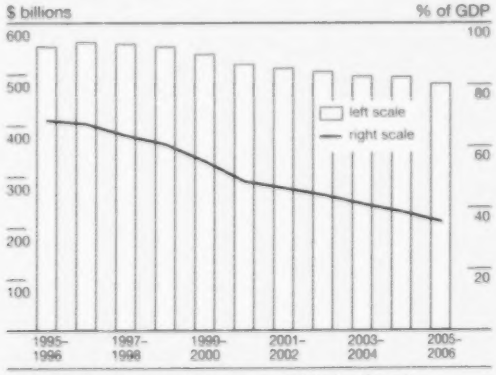
The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

With a budgetary surplus of $3.5 billion and a source of $5.0 billion from non-budgetary transactions, there was a net financial source of $8.5 billion in the April to May 2007 period compared to a net financial source of $2.8 billion from the same period last year.

Net financing activities down $19.1 billion

The government used this financial source of $8.5 billion and a reduction in its cash balances of $10.6 billion to reduce its market debt by $19.1 billion by the end of May 2007. The reduction in market debt was achieved largely through a reduction of Treasury bills. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of May stood at $10.6 billion.

Table 1

Summary statement of transactions

	April		May		April-May	
	2006	2007	2006	2007	2006–07	2007–08
			($ millions)			
Budgetary transactions						
Revenues	18,955	20,972	18,270	18,680	37,225	39,652
Expenses						
Program expenses	-13,605	-15,278	-14,419	-15,035	-28,024	-30,313
Public debt charges	-2,714	-2,976	-2,857	-2,855	-5,571	-5,831
Budgetary balance (deficit/surplus)	2,636	2,718	994	790	3,630	3,508
Non-budgetary transactions	-3,834	75	3,033	4,927	-801	5,002
Financial source/requirement	-1,198	2,793	4,027	5,717	2,829	8,510
Net change in financing activities	-12,212	-17,161	2,224	-1,944	-9,988	-19,105
Net change in cash balances	-13,410	-14,368	6,251	3,773	-7,159	-10,595
Cash balance at end of period					10,802	10,609

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

Budgetary revenues

	April		May		April-May		
	2006	2007	2006	2007	2006–07	2007–08	Change
			($ millions)				(%)
Tax revenues							
Income taxes							
Personal income tax	9,511	10,099	8,212	8,439	17,723	18,538	4.6
Corporate income tax	2,333	3,374	2,941	3,324	5,274	6,698	27.0
Other income tax revenue	330	426	336	367	666	793	19.1
Total income tax	12,174	13,899	11,489	12,130	23,663	26,029	10.0
Excise taxes and duties							
Goods and services tax	2,855	2,736	2,693	2,011	5,548	4,747	-14.4
Customs import duties	295	322	223	298	518	620	19.7
Sales and excise taxes	761	762	723	735	1,484	1,497	0.9
Air Travellers Security Charge	35	37	31	32	66	69	4.5
Total excise taxes and duties	3,946	3,857	3,670	3,076	7,616	6,933	-9.0
Total tax revenues	16,120	17,756	15,159	15,206	31,279	32,962	5.4
Employment insurance premiums	1,636	1,766	1,581	1,666	3,217	3,432	6.7
Other revenues	1,199	1,450	1,530	1,808	2,729	3,258	19.4
Total budgetary revenues	18,955	20,972	18,270	18,680	37,225	39,652	6.5

Note: Totals may not add due to rounding.

Table 3

Budgetary expenses

	April		May		April-May		
	2006	2007	2006	2007	2006–07	2007–08	Change
			($ millions)				(%)
Transfer payments							
Transfers to persons							
Elderly benefits	2,506	2,607	2,506	2,622	5,012	5,229	4.3
Employment insurance benefits	1,251	1,378	1,052	1,075	2,303	2,453	6.5
Children's benefits	810	1,011	798	1,019	1,608	2,030	26.2
Total	4,567	4,996	4,356	4,716	8,923	9,712	8.8
Transfers to other levels of government							
Support for health and other social programs							
Canada Health Transfer	1,678	1,779	1,679	1,779	3,357	3,558	6.0
Canada Social Transfer	708	733	709	734	1,417	1,467	3.5
Total	2,386	2,512	2,388	2,513	4,774	5,025	5.3
Fiscal transfers	927	970	1,272	1,316	2,199	2,286	4.0
Canada's cities and communities	0	0	0	2	0	2	n/a
Alternative Payments for Standing Programs	-268	-245	-269	-246	-537	-491	-8.6
Total	3,045	3,237	3,391	3,585	6,436	6,822	6.0
Subsidies and other transfers							
Agriculture and Agri-Food	74	76	119	18	193	94	-51.3
Foreign Affairs and International Trade	26	242	409	222	435	464	6.7
Health	108	129	218	252	326	381	16.9
Human Resources and Social Development	95	91	294	249	389	340	-12.6
Indian Affairs and Northern Development	658	668	317	295	975	963	-1.2
Industry	108	136	72	76	180	212	17.8
Other	599	641	359	396	958	1,037	8.2
Total	1,668	1,983	1,788	1,508	3,456	3,491	1.0
Total transfer payments	9,280	10,216	9,535	9,809	18,815	20,025	6.4
Other program expenses							
Crown corporation expenses							
Canadian Broadcasting Corporation	215	276	115	64	330	340	3.0
Canada Mortgage and Housing Corporation	190	130	190	157	380	287	-24.5
Other	316	404	333	283	649	687	5.9
Total	721	810	638	504	1,359	1,314	-3.3
Defence	1,034	1,150	1,119	1,138	2,153	2,288	6.3
All other departments and agencies	2,570	3,102	3,127	3,584	5,697	6,686	17.4
Total other program expenses	4,325	5,062	4,884	5,226	9,209	10,288	11.7
Total program expenses	13,605	15,278	14,419	15,035	28,024	30,313	8.2
Public debt charges	2,714	2,976	2,857	2,855	5,571	5,831	4.7
Total budgetary expenses	16,319	18,254	17,276	17,890	33,595	36,144	7.6

Note: Totals may not add due to rounding.

Table 4

The budgetary balance and financial source/requirement

	April		May		April-May	
	2006	2007	2006	2007	2006–07	2007–08
			($ millions)			
Budgetary balance (deficit/surplus)	2,636	2,718	994	790	3,630	3,508
Non-budgetary transactions						
Capital investing activities	-25	-39	37	35	12	-4
Other investing activities	555	612	-35	-102	520	510
Pension and other accounts	222	357	-398	424	-176	781
Other activities						
Accounts payable, receivables, accruals and allowances	-5,906	-1,839	2,805	3,121	-3,101	1,282
Foreign exchange activities	1,058	703	412	1,176	1,470	1,879
Amortization of tangible capital assets	262	281	212	273	474	554
Total other activities	-4,586	-855	3,429	4,570	-1,157	3,715
Total non-budgetary transactions	-3,834	75	3,033	4,927	-801	5,002
Net financial source/requirement	-1,198	2,793	4,027	5,717	2,829	8,510

Note: Totals may not add due to rounding.

Table 5

Financial source/requirement and net financing activities

	April		May		April-May	
	2006	2007	2006	2007	2006–07	2007–08
			($ millions)			
Net financial source/requirement	-1,198	2,793	4,027	5,717	2,829	8,510
Net increase (+)/decrease (-) in financing activities						
Unmatured debt transactions						
Canadian currency borrowings						
Marketable bonds	303	1,546	758	3,270	1,061	4,816
Treasury bills	-10,500	-17,100	2,800	-3,500	-7,700	-20,600
Canada Savings Bonds	-83	-98	-43	-55	-126	-153
Other	-61	-137	-284	-3	-345	-140
Total	-10,341	-15,789	3,231	-288	-7,110	-16,077
Foreign currency borrowings	-1,828	-525	-948	-264	-2,776	-789
Total	-12,169	-16,314	2,283	-552	-9,886	-16,866
Cross-currency swap revaluation	-2	-975	0	-1,365	-2	-2,340
Unamortized discounts on debt issues	-27	132	-58	-30	-85	102
Obligations related to capital leases	-14	-4	-1	3	-15	-1
Net change in financing activities	-12,212	-17,161	2,224	-1,944	-9,988	-19,105
Change in cash balance	-13,410	-14,368	6,251	3,773	-7,159	-10,595

Note: Totals may not add due to rounding.

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